GAF

GAF CORPORATION ANNUAL REPORT 1975

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Over the years GAF has become a key part of America's active family lifestyle—not only at home and at play, but at the office as well. This is vividly brought to life in the color folio beginning on page 14.

The uses highlighted are only a fraction of the thousands of applications of GAF's broad range of products.

The Annual Meeting of Shareholders will be held at 10:00 a.m. Tuesday, April 27, 1976, at the St. Francis Hotel, Union Square, San Francisco, Calif.

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Financial Highlights	1975	1974*
Sales	$914,421,000	$948,809,000
Net Income	$ 30,946,000	$ 28,517,000
Earnings per Common Share		
Primary	$2.08	$1.84
Fully Diluted	$1.79	$1.62
Cash Dividends		
Per Preferred Share	$1.20	$1.20
Per Common Share	$ .52	$ .46

*Restated—See Note 2 of Notes to Consolidated Financial Statements

Stock Transfer Agents and Registrars

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111 Wall Street
New York, N.Y. 10015

First Jersey National Bank
One Exchange Place
Jersey City, N.J. 07303

Form 10 K as filed with the Securities and Exchange Commission may be obtained, free of charge, by writing to Investor Relations Dept., GAF CORPORATION, 140 West 51 Street, New York, N.Y. 10020

MESSAGE FROM THE PRESIDENT

GAF achieved new highs in sales in 1975 and, based on restated figures, net income and earnings per share were higher than last year's levels.

Sales for 1975 were $964 million, compared with $949 million in 1974.

During fourth-quarter 1975, we revised our accounting procedures to conform to the requirements of a new Financial Accounting Standards Board statement concerning foreign currency translations. These changes had a beneficial impact of $1.7 million on our reported earnings in 1975; restatement decreased 1974 earnings by $4.0 million and increased 1973 earnings by $2.9 million.

Net income for 1975 was $30.9 million, compared with restated 1974 net income of $28.5 million.

GAF's over-all results must be viewed in light of the powerful economic forces affecting our domestic and international markets. In general, continuing inflationary trends forced us to institute price increases, but recessionary trends meant we sold reduced volumes of product in this country and abroad.

Market demand improving

Generally, market demand for GAF products took a turn for the better in the third quarter, benefiting from greater availability of capital, declining interest rates, and increased business and consumer confidence. There was a general pickup in tone throughout industry, in part reflecting the improved retail outlook.

Chemical sales grew stronger as the year progressed, and 1976 entered on a very positive upswing. Photo & Repro held the line, and we continue to believe in its long-range potential to make a significant contribution to corporate profitability. GAF's Building Materials sales—particularly roofing and flooring—which had held firm even through the spongy economy of the first half of the year, showed exceptional strength in the final half, both in dollar sales and unit volumes. This contributed greatly to the year's results, and once again confirmed the value of business diversification for GAF.

Despite economic conditions, 1975 was a year of very positive achievement for GAF.

Throughout this report, you will see references to GAF improving its market position in various lines of business. In some cases this occurred despite sales declines because our company's aggressive sales efforts won over new customers and gave us a larger portion of a smaller market. The aim, of course, is to hold on to the increased share when the market itself expands, and we are making every effort to do just that.

GAF reacted swiftly to the economic downturn with a massive cost-cutting program aimed at holding the line on expenses that had reached an inflation-swollen $898 million in 1974. In 1975, despite continuing high inflation rates worldwide, our costs and expenses were checked at $921 million, an increase of less than 3%.

The company's financial condition was improved also as intensive management of our assets reduced long-term and short-term debt a total of $30 million, including a $12 million prepayment of the $60 million loan we negotiated in December 1974.

Tight control of inventories enabled us to end the year with $19 million less in inventories than a year earlier. Through close management, we were successful in holding our receivables below 1974 levels. Moreover, market weaknesses helped to highlight a number of marginal products, which were weeded out to strengthen product lines.

These efforts, which turned necessity to advantage, helped to keep GAF on course without curbing our momentum. Our plans for growth are virtually unaffected and, in fact, progressed significantly during the year. The company's capital expenditures in 1975 were approximately $38 million.

Irish flooring plant

In April 1975, GAF concluded arrangements for the largest single capital project in the company's history: a $30 million-plus sheet vinyl flooring plant in Ireland. When completed in 1977, the plant will be GAF's principal source of this resilient flooring for Europe and other overseas markets. International demand for sheet vinyl flooring is expected to mushroom over the next few years, and we intend to carve out a substantial piece of it for GAF.

Not only does this mean a considerably strengthened GAF presence in overseas flooring markets, but also it lifts the international burden from our Whitehall, Pa., plant, giving the company greater capability to produce more sheet vinyl, in more styles, and improve distribution for the domestic market.

Chemical joint venture

Another major growth project of 1975, which had reached the agreement stage in time to be announced in last year's report, was the creation of GAF/Hüls Chemie, G.m.b.H., a 50/50 joint venture between GAF and Chemische Werke Hüls, A.G., of West Germany. Construction is slated to begin soon on a butanediol plant adjacent to the Hüls facility in Marl, and is currently scheduled for completion by mid-1977. It will have the capacity to produce annually some 60 million pounds of butanediol, which is in growing demand, particularly for manufacture of engineering plastics. GAF is currently one of the world's largest suppliers of butanediol from production facilities in the United States, and the new over-$30 million venture—plus our expanded U.S. output—will ensure our continuing leadership in this field.

In October, GAF entered a new market—hard plastics—with the introduction of Gafite,® our brand of polybutylene terephthalate (PBT), one of the most versatile and most important new engineering resins. Expectations are that demand for PBT will more than quadruple over the next five years. To help meet that demand, GAF will construct at our Calvert City, Ky., chemical complex a Gafite resin manufacturing plant, expected to begin production by 1977.

The key ingredient in PBT is the chemical butanediol, currently manufactured at GAF plants in Calvert City and in Texas City, Tex., and soon to be manufactured at the GAF/Hüls plant.

WNCN

GAF undertook a pilot venture in 1975 that was widely reported and widely praised in the media. All business arrangements have been concluded for our $2.2 million purchase of New York radio station WNCN, 104.3 FM, in a move that could give us a new profit base and greater exposure of the GAF name.

The station gained national attention in late 1974 when it switched from classical music programming to progressive rock, and irate listeners groups, representing WNCN's substantial audience, filed protests with the Federal Communications Commission. GAF's intended purchase of WNCN is predicated on improved classical music/fine arts programming, and making it the best station of its kind in the New York area. We are now awaiting approval from the FCC and expect its decision in the near future.

We believe this new business endeavor has the potential to grow into a full-fledged broadcasting system for GAF.

Lawsuit against Kodak

Pre-trial activities in the company's anti-trust suit against Eastman Kodak are accelerating, and the trial is tentatively set to begin at the end of this year. The suit, filed in 1973, charges that company with monopolization and other illegal practices which have adversely affected the conduct of GAF's photographic business.

Economic outlook

Over the past two years or so, the economy, which is always expected to fluctuate, rather outdid itself. The upturns have been steep, the downturns precipitous, the swerves extreme, and it has not been unusual for the direction to change from one quarter to the next.

There is growing optimism on the part of most economists that the gradual uptrend experienced during recent months will continue over a relatively long period. If so, it is a healthy sign and a promising one for GAF. We believe that this kind of economic stability will enable us to achieve the positive results inherent in our ambitious plans and programs.

Moreover, we believe we have the people in our company who can turn the slightest economic improvement to profitable advantage for GAF. We thank GAF people everywhere for their exceptional efforts and their willing cooperation throughout 1975 and look forward to a rewarding 1976.

By Order of the Board of Directors.

Jesse Werner

Jesse Werner
Chairman of the Board and President

February 11, 1976

CHEMICAL

Group Net Sales (millions)	**1975**	1974
Net Sales	**$235.1**	$237.1
Direct Operating Profit*	**$ 36.2**	$ 45.7

*Excludes Unallocated Corporate Expenses

Chemicals
Agriculture Specialties
Dyes and Pigments
Intermediates
Iron Powders
Latex Polymers and Compounds
Monomers
Polymers
Silver Salts

GAF's worldwide Chemical sales dipped 1% from record 1974 levels, but direct operating profit declined 21% from the 1974 record, in the wake of the worst recession to hit the chemical industry in 40 years.

Demand for most chemical products was weak during the first part of 1975, but sales began to turn upward during late summer. By year end, monthly sales totals were running well ahead of the corresponding periods of 1974.

Agricultural sales strong
Performance of the GAF agricultural chemicals business was exceptionally good throughout the year. The over-all agrichemicals business grew almost 50 percent during 1975, and now ranks as one of the more important segments of GAF's chemicals business. GAF is a leading contract manufacturer of herbicides used in the cultivation of soybeans, one of America's most important cash crops.

During the year, a long-term contract was signed with United States Borax and Chemical Corporation for GAF to manufacture their trademarked product Cobex, a herbicide employed in the growing of soybeans, cotton, peanuts and dry beans. Production of Amchem Products' Amiben, a pre-emergent herbicide, attained all-time record levels. Another herbicide, Oryzalin, was manufactured on a commercial scale for Eli Lilly. Toward year end, negotiations were under way on contract manufacture of other agrichemicals with several other companies who market these products.

In 1975, GAF's plant-growth regulator, marketed under our Cepha trademark, achieved steadily widening application in the harvesting of such crops as cherries, tomatoes, and apples. The company anticipates continued progress in this market.

After particularly strong demand during 1974, markets for acetylene chemicals softened in early 1975 but showed good signs of recovery late in the year. Demand continued to grow for butanediol, principally for the manufacture of plastics and fibers, M-Pyrol® solvent, for extraction of lube oils; and Polyplasdone® XL binder-disintegrator, for pharmaceutical uses.

In view of the growing concern over fluorocarbon-pressured aerosols, sales prospects of GAF's Gantrez® hair-care resins are most encouraging because they are particularly well suited for use in manual pump sprays. Other products with promising growth prospects include V-Pyrol® monomer for radiation-cured films and Polyclar® clarifiers for use in wine and beer.

To ensure continued strength in the growing market for butanediol, the company has expanded U.S. production and is proceeding with a previously announced joint venture in West Germany for manufacture of the chemical (see International, p.10).

New plastics venture
In addition, GAF announced during the year its decision to build, at Calvert City, Ky., a plant for commercial manufacture of Gafite® polybutylene terephthalate (PBT), an engineering plastic based in part on butanediol currently made at our Calvert City and Texas City chemical plants. Gafite PBT products constitute the first commercial venture for GAF into the manufacture of hard plastics, and represent a potentially significant direction for future growth. PBT's unique range of properties has already put it in great demand by the automotive and electronics industries, and new applications are constantly being developed.

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Solvents
Specialty Chemicals
Surfactants
Textile Chemicals
Thermoplastic Molding Resins

Felts and Filters
Designer Felts
Filter Media
Gaskets
Industrial Felts
Liquid and Gas Filtration Devices
Mineral Fiber Products
Papermakers' Felts
Piano Felts
Polishing Felts
Pressure Vess I Filter Systems
Wicking and Lubricating Felts

Granules
Mineral Granules

Vigorous sales efforts kept dollar ales of GAF surfactants close to 1974 vels, despite a precipitous decline in to al market demand, as formulators ar d others in the distribution chain red ced their inventories. In manufacturing process improvements and attenc nt cost savings were made during the year, enabling GAF to improve its position in this important product area.

Silver salts capacity up

In the field of specialty chemicals, s les of GAF's silver salts were good thrc gh-out the year, with particularly strong demand for silver oxide grades use in miniature batteries. Increased man 'ac-turing capacity was installed at the Glens Falls, N.Y., plant to help meet growing demand. Less satisfactory market conditions prevailed in other specialty lines, notably in textile chem - cals and in carbonyl iron powders, us ed principally in the electronics industr

As raw materials became widely avai - able, GAF's latex sales in dollars and unit volumes increased over 1974 levels, running counter to a downtrend n the industry. This was achieved despite severe price competition in the tradi-tional markets for GAF latex. Market reaction to new GAF latices for paper coating, pigment printing pastes, and nonwovens was favorable, and mar-kedly increased volume is expected to develop in all of these end-use applica-tions during 1976.

The dyestuff market was depressed in 1975, and GAF's sales were off from 1974 levels. However, vigorous sales efforts enabled the company to capture an increased share of the domestic mar-ket for dyes, particularly in carpet and paper manufacturing. Sales of GAF disperse dyes grew most substantially, in part because of the favorable market reception given to the new Genacron® dyes for synthetic fibers. Major cost reductions were made in the formulation of selected dyestuffs and in dyestuff manufacturing as a whole.

Modernization and expansion of GAF's Charlotte, N.C., dye applications labora-tory was completed. The new customer service facilities serve the textile industry on dyes and textile chemicals. Also completed during the year was a new dye applications center in Melrose Park, Ill., to serve the leather industry.

Demand for wool and synthetic-fiber felts slumped early in 1974, and did not fully recover during 1975. Competitive conditions remained severe throughout the year. However, GAF increased its penetration in the wool felt market.

The company successfully introduced its newly developed IFC™ filter cartridge for use in such diversified industries as chemicals, pharmaceuticals, food pro-cessing, and paint. This promises to open the way for steady and profitable expansion of GAF participation in the market for disposable filter devices.

Demand for re-roofing materials was strong through most of the building products industry beginning in April, and GAF's roofing granules plants operated essentially at capacity through the last three quarters of the year.

PHOTO & REPRO

Group Net Sales (millions)	**1975**	1974
Net Sales	**$357.0**	$351.1
Direct Operating Profit **	**$ [illegible].8**	$ 10.0*

*Restated—See Note 2 of Notes to Consolidated Financial Statements

**Excludes Unallocated Corporate Expenses

Photo Products
- Accessories
- Cameras
- Diazo Photoplates
- Films
- Graphic Arts Materials
- Papers
- Photo Chemicals
- Photo Processing Service
- Photoresists
- Pictorial Slides
- Projectors

Worldwide Photo & Repro sales were 2% higher than in 1974, but direct operating profit eroded 52% in the face of reduced unit volumes. The photographic and reprographic industries suffered from the recessionary economy, particularly in Europe. GAF's sales gains in industrial photo products were sufficient to offset declines in other areas.

Raw material costs continued to rise during 1975 and, principally in the photo end of the business, could not be fully recouped through higher prices. Silver prices averaged substantially higher than the previous year. These cost increases for raw materials—including silver—in products sold amounted to more than $10 million over 1974 levels.

Over-all sales of GAF photo hardgoods were moderately higher, benefiting from a wave of late-in-the-year buying. General market softness provided the impetus to weed out marginal products. This and other cost-cutting measures helped to moderate profit declines.

Sound movie sales good

The brightest spot in the 1975 consumer marketing picture was acceptance of sound cameras and sound projectors, which contributed substantially to sales results. This indicates the growing importance of sound equipment in the home-movie field and underscores GAF's success in penetrating the market.

A 5-to-1, available-light, sound movie camera, with a zoom range unique in its field and price class, was introduced in 1975, and was well received by dealers and customers. This brings to four the number of sound movie cameras in the excellent GAF line. The company also offers two sound projectors.

GAF's top-of-the-line L-ES™ single-lens-reflex 35mm camera, introduced in 1974, showed good consumer acceptance in 1975 against stiff competition.

Two new slide projectors have been introduced at the top of the GAF line: the GAF Hush-A-Matic® 2710 and 2720. The projectors offer numerous features, including quieter operation, remote control, automatic focusing and timer, and pop-up editor.

Several new models of movie and still cameras and projectors are slated to be introduced in 1976 to increase GAF's share of an expanding market.

Sales of View-Master® pictorial products were off slightly for the year. A special Bicentennial View-Master viewer kit sold exceptionally well during 1975, as did the new View-Master rear-screen viewer, which permits group viewing. A new standard View-Master viewer, in contemporary styling, is being readied for market introduction in 1976.

New color film planned

A new color print film is planned for market introduction in early 1976. The film is compatible with processing methods now prevalent in the industry.

Industrial photo sales showed solid increases over 1974. An expanded sales force for x-ray and graphic arts films improved market coverage during the year and helped to penetrate several new markets. Also, new medical x-ray and graphic arts films contributed to improved results. GAF was awarded two important government x-ray contracts during 1975.

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10 The new GAF 20/20 pocket camera uses sure-fire FlipFlash for easy indoor pictures.

11 GAF PVP-iodine is an important ingredient in sanitizers, disinfectants, mouthwashes and gargles. GAF's PVP is also used as a binder/disintegrator for pharmaceuticals.

12 GAF felts are used for noise deadening and vibration control in dishwashers and other appliances.

13 GAF plant-growth regulator, Cepha®, helps farmers harvest apples, tomatoes and cherries at their peak. Other GAF agricultural chemicals aid in cultivation of cotton, soybeans and other crops.

14 Plated kitchen flatware gets its long-lasting beauty and shine from silver chemicals produced by GAF.

15 GAF rewetting agents and binders help provide the durability in disposable paper and nonwoven wipes.

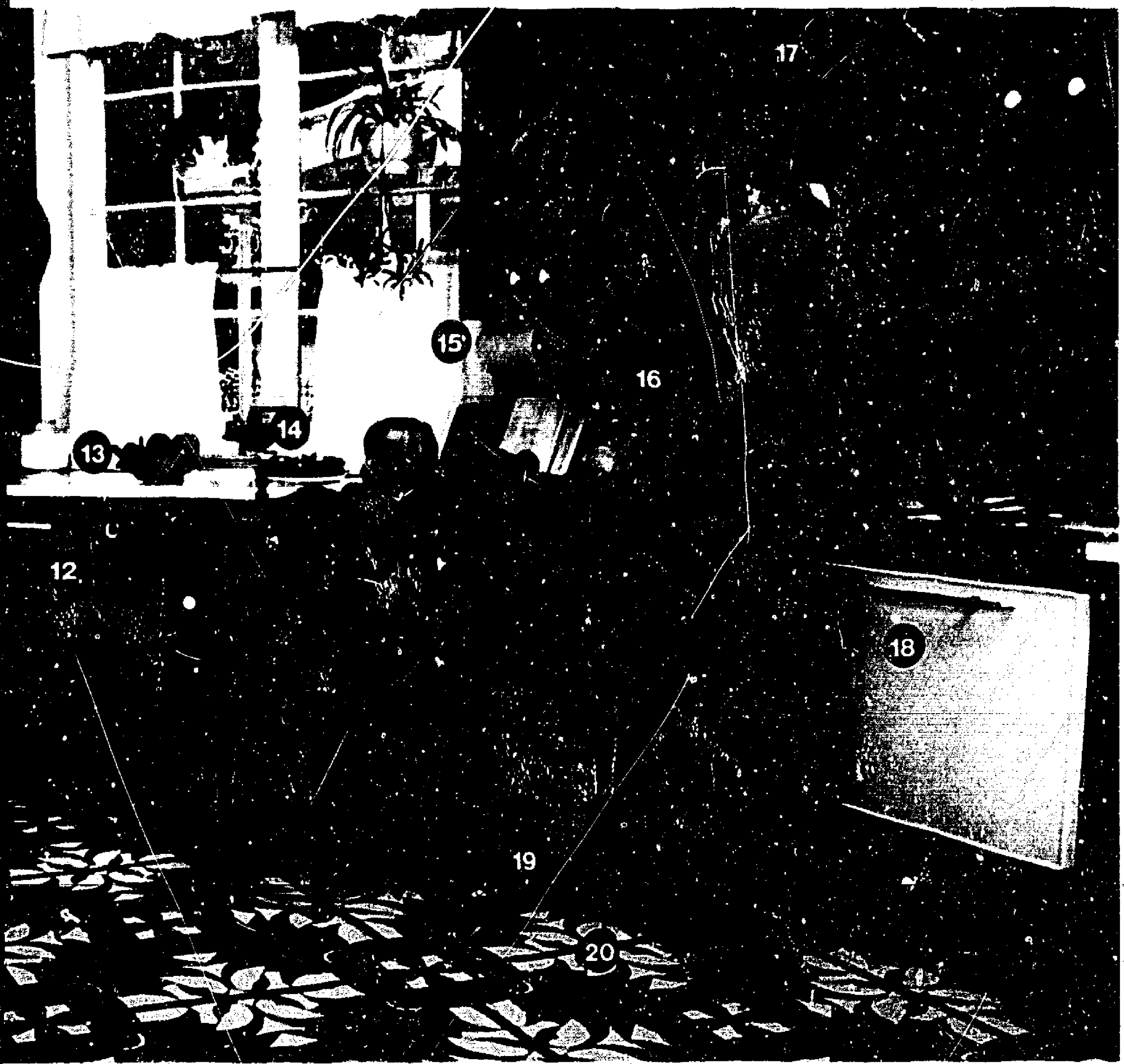
16 GAF wool and synthetic fiber felts are functional and decorative, in slippers, in suits, and even in this useful and handy tackboard.

17 GAF pigments and surfactants give color and spreadability to many paints.

18 The job of keeping the kitchen clean is made easier with GAF surfactants used in cleansers for ovens, pots and pans, flooring and many other applications.

19 GAF vinyl cove base protects and puts the finishing touch to flooring.

20 The polyurethane surface on GAF Gafstar® Brite-Bond cushioned sheet vinyl flooring provides an unbeatable combination of beauty, durability, comfort, and ease of maintenance.



At Work

1 GAF microfiche reader/printers provide quick paper copies of information stored on microfilm.

2 GAF microfiche duplicators can provide hundreds of copies an hour.

3 GAF produces a large family of high-resolution, high-clarity microfilms.

4 GAF Draftrace® paper is part of a large line of drafting materials produced by the company.

5 One of the many uses of the versatile new PBT resin is plastic barrels for felt-tip pens.

6 GAF is a major supplier of dyes to the nation's paper industry.

7 Offered in this catalog of GAF printExpress® centers is the full range of the company's reproduction and microfilm services, including overhead transparencies for business and school use.

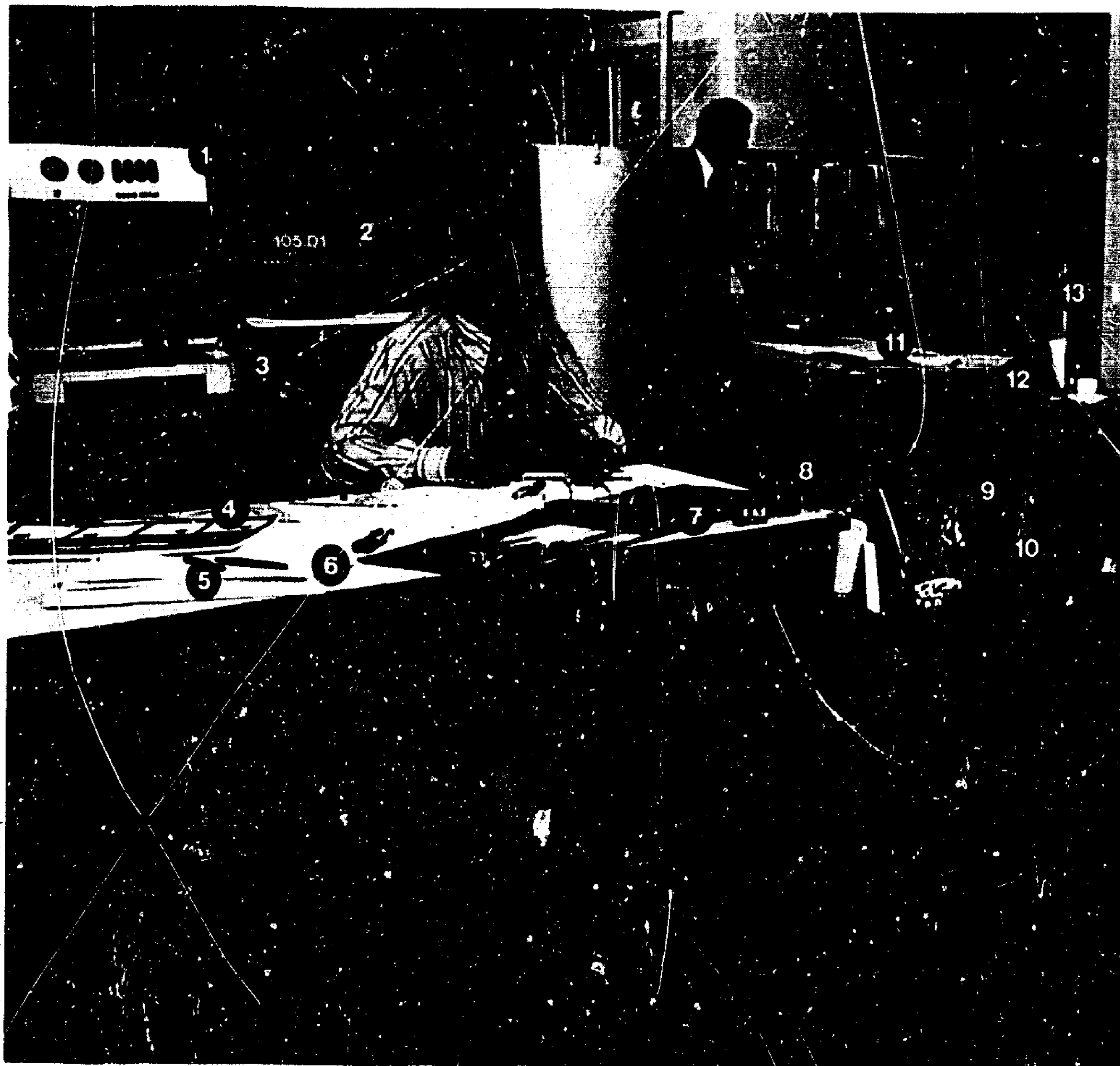
8 GAF color slide film is available in instant-loading cartridges and 35 mm magazines, in the widest range of ASA speeds.

9 GAF photo service facilities deliver handsomely mounted photo enlargements suitable for wall or desktop.

10 The GAF L-ES single-lens reflex camera is sophisticated enough for the professional, yet easy to operate.

11 GAF is a major supplier of graphic arts materials for phototypesetting and printing of magazines and other publications.

12 GAF supplies custom-designed and printed sales books, order books, and many other business forms to businesses throughout much of the U.S.



13 GAF industrial x-ray film and chemicals help architects and engineers detect structural weaknesses. GAF medical x-ray film is used by doctors and hospitals around the world.

14 The Galont® lettering machine produces sharp, opaque lettering on adhesive-backed polyester tape—a great time-saver for architects, engineers and designers.

15 GAF supplies dyes to the textile industry in a rainbow of colors for virtually every kind of fabric.

16 GAF dyes and felts are used in popular multi-colored markers.

17 Used for filtration systems, metal polishing, and thousands of other applications, GAF's line of felts include decorative types, such as this wall covering.

18 The GAF information retrieval system can store thousands of data processing cards and retrieve any one of them in seconds.

19 GAF diazoprinters produce quality architectural and engineering drawings, at low cost.

20 GAF diazo copying machines, sensitized papers, and other supplies make for one of the most versatile and economical copy systems available.

21 GAF resilient floor tiles, for commercial and residential use, come in a wide variety of colors and designs.

22 GAF butanediol is found in the synthetic components of women's and men's shoes.

At Play

1 GAF chemicals put the "hold" in many popular hair sprays, and the "clean" and "manageability" in many shampoos.

2 GAF pocket cameras are a great choice for family snapshots.

3 GAF Vanguard® vinyl siding and Stratake® mineral siding provide beauty, low maintenance, and durability.

4 The deluxe GAF SS 505 XL sound movie camera captures the sight and sound of family fun, yet is the choice of serious moviemakers.

5 GAF Vanguard® vinyl shutters will not rot, dent, chip or peel . . . long-lasting beauty and low upkeep.

6 Football jerseys and other sports uniforms get their bright colors from GAF dyes, while GAF felts make the lettering that let you know who's who.

7 Football helmets are one of many uses for versatile PBT plastic, made from GAF butanediol.

8 GAF felt backing in knee and shoulder pads provide comfort and protection from the midget leagues to the pros.

Slide Viewers
Specialized Professional Materials
Stereo Picture Reels
Stereo Viewers
X-ray Films and Chemicals

Business Systems Products
Business Forms
Contract Manufacturing Service
Copying Supplies
Diazo Copiers
Document Retrieval Units
Microfilm Equipment
Microfilms
Overhead Projectors
Overhead Transparencies
Quick-Service Retail Copying and Printing Centers

A particularly promising new product, Gaftype™ C phototypesetting paper, was introduced in late 1975. Its compatibility with photopolymer printing plates has created considerable demand by newspapers around the country.

Reprographic sales declined in 1975, principally as a result of a dip in the market for diazo materials and equipment due to the poor economy, overabundant supply, and severe price competition.

Diazo potential bright
Several recently negotiated industrial and government contracts for diazo materials and equipment, significant price increases, and continuing firmness of the economy should help improve diazo sales results.

The new GAF 176 FL fluorescent diazoprinter, designed primarily for architectural and engineering offices, was unveiled in October, adding to the company's broad capabilities in this market. With the introduction of this low-cost, desk-size machine, it is now economically feasible for small users to own an in-house printer. Initial market reaction has been good.

In a year that was not particularly good for business, micrographics maintained its promising growth in the field of information recording, storage and retrieval. GAF foresees continued expansion of the market and intends to be a growing factor in it.

GAF's extensive line of micrographic products was enhanced by the introduction of the new 105 D1 microfiche duplicator, a non-slip black diazo microfilm, and a new, thin polyester diazo microfilm. A new reader-printer, model 5000, is scheduled for introduction in early 1976.

Business forms sales
While the total business forms market dropped precipitously in 1975, and price cutting was rampant, GAF's business forms sales dipped only moderately, and the company was thus able to improve market position. One reason was a new focus on specialized forms, including those designed for health institutions and supermarkets, as well as price-marking tickets for automated registers in department stores.

Sales from printExpress® service stores increased markedly for the year. Four new stores were opened, bringing the total to 17 in three states, plus three in Great Britain.

In Photo & Repro manufacturing, major inventory reductions were made during 1975, plant operating expenses and overtime were closely controlled and reduced, and operating efficiencies improved. In particular, a stringent energy-conservation program was implemented to overcome the sharp rise in energy costs.

Better utilization of silver in photographic products and significantly improved recovery techniques are continuing high-priority programs for GAF. A proprietary silver-recovery system, recently developed at Binghamton, N.Y., was installed in a new unit at the Chemical group's Linden, N.J., plant.

BUILDING MATERIALS

Group Net Sales (millions)	1975	1974
Net Sales	**$372.3**	$360.6
Direct Operating Profit**	**$ 48.8**	$ 43.5*

*Restated—See Note 2 of Notes to Consolidated Financial Statements
**Excludes Unallocated Corporate Expenses

Floor Products
Adhesive-Backed Floor Tile
Adhesives and Fillers
Flooring Felt
Installation Tools
Resilient Floor Tile

1975 was a year of record high results for GAF Building Materials, with worldwide sales up 3% and direct operating profit up 12%.

This was accomplished although the construction industry was hampered by capital shortages, high interest rates, and buyer uncertainty in an uncertain economy. New housing starts sank to a 29-year low of 1.1 million units, and non-residential construction also dipped sharply. Although most materials shortages all but vanished in 1975, costs continued to rise. These were offset by greater manufacturing productivity and price increases.

Renovations market strong
The principal source of strength for GAF was in the area of renovation and remodeling, which continued its vigorous growth. The company was well positioned to take advantage of opportunities in the re-roofing, re-siding, and re-flooring markets. Price increases held firm in many Building Materials lines, contributing significantly to results, although over-all unit volumes were down slightly. A stringent cost-reduction program had a further beneficial effect on profitability, and the company was able to operate efficiently with reduced inventories during the year.

GAF maintained or improved its marketing position in each of its major Building Materials lines during 1975, aided by the introduction of several excellent new products, improved distribution, and strong national television advertising and dealer support.

Roofing gains good
Asphalt roofing sales continued strong during the year, led by GAF's premium product, Timberline® shingles. This roofing combines beauty with durability, provides the look of natural materials, and blends well with both traditional and contemporary structures.

In November, the U.S. government granted a long-pending patent to GAF on Timberline shingles, and the company subsequently offered licenses under this patent to other roofing manufacturers.

GAF's cold-applied Mineral Shield® roofing system, principally used for commercial and industrial buildings, continued to sell well in 1975 despite the decline in new construction. One reason is that the system is as well suited for re-roofing as it is for original roofing work. It is exceptionally durable and offers a number of significant advantages over traditional hot-melt roofing, including greater ease of application and lower atmospheric emissions.

Sales of Vanguard® vinyl siding showed excellent growth in 1975 after being impeded in 1974 due to raw materials shortages. Increasing consumer recognition of the advantages of vinyl siding over wood and aluminum should keep this market growing rapidly in future years. The Vanguard line was expanded in 1975 to include several new colors as well as printed, woodgrain texture variations which have already shown good market strength. Similarly, Stratalite® mineral siding sales also increased during the year, as consumers recognized its advantages of durability and exceptional fire resistance.

In August, the company introduced the first of its polyurethane-surfaced family of sheet vinyl flooring products with new Gafstar® Brite-Bond Citation™ flooring. This product combines foam backing for underfoot softness with a high-gloss, low-maintenance surface. Brite-Bond™ flooring was launched with a coordinated multi-media selling program to acquaint dealers and customers with its special functional and esthetic qualities. Initial market reaction was exceptional, and demand continues strong.

Seam Fusing System
Sheet Vinyl Floors
Vinyl Cove Base

Roofing, Siding and Insulation
Asphalt Roof Shingles
Automotive Sound-Deadening Products
Building Board
Building Insulation
Built-Up Roofing Materials
Canal Bulkheads
Driveway Sealer
Foundation Coatings
Mineral Siding
Plastic Cements
Roll Roofing
Roof Coatings
Vinyl Shutters
Vinyl Siding

Gafstar* Prime sheet vinyl flooring, introduced in 1974 as an inflation fighter, continues to sell well with budget-minded customers. With Gafstar Prime, Gafstar Brite-Bond Citation, and eight other lines, the company now has sheet vinyl in every major price range.

Improved distribution

Thirteen new distribution points were established for flooring products during the year, and the company also increased sales of its products to numerous mass merchandising outlets in many parts of the country. Mass merchandisers and "home center" facilities are a growing factor in the remodeling and renovating marketplace, and GAF has made excellent inroads into this field.

Rising demand for sheet vinyl floor products around the world threatens to outstrip the production capacity of GAF's Whitehall, Pa., plant. Construction of a new manufacturing plant in Ireland (see International, p.10) will free up Whitehall to produce sheet vinyl in more styles and in greater quantity for the U.S. market. These developments will help to assure ample product supply for all GAF markets internationally.

During the year, the company secured several resilient flooring contracts for government installations.

The drop in residential and commercial construction in 1975 had a serious adverse impact on sales in the resilient floor tile industry as a whole. GAF's tile sales were down only moderately, however, and the company was thus able to increase its share of the market. A new, color-coordinated look was added to GAF's commercial tile line, in an effort to win new customers among architects, contractors, and other contract buyers.

Sure-Stik* sales up

Sales of Sure-Stik tile, for application by "do-it-yourselfers," increased in both dollars and volume despite the dip in the market for resilient tile generally.

GAF has designed a superior noise-control system which combines vinyl asbestos floor tile with a special underlayment. This product is excellent for commercial use, in such applications as apartment buildings, hospitals and nursing homes. GAF manufactures both the underlayment and the tile, and thus offers the complete system. The new system conforms to building code standards recently established by the federal government and various municipal and state agencies.

Sales of GAF's automotive sound deadeners and insulation continued to rise as a swing toward smaller cars increased the need for these products for quiet operation.

INTERNATIONAL

International sales of GAF products, both those manufactured abroad and those exported from the United States, totaled $166 million, a 4% increase over the $160 million reported for 1974. (These figures have been abstracted from the results reported on a worldwide basis in GAF's three product sales groups, preceding.)

Economic pressures

Worldwide recession, combined with intervention by foreign governments to control inflation and fiscal deficits, slowed the growth in each of the company's major International sales operations. Moreover, recession, price controls, and intense competition prevented implementation of price increases large enough to cover higher production and operating costs.

Chemical sales were up somewhat from 1974 levels. After a strong first quarter, sales were adversely affected by a general downturn in the marketplace.

Photo & Repro sales also increased moderately for the year, as inflation and economic uncertainty eroded market demand for most product lines, in both hardgoods and film.

Building Materials sales outside of the United States were roughly comparable to 1974 levels. Reduced volume from direct sales in Canada were offset by increased direct sales in Australia and Japan, as well as in Europe.

In April, the company announced plans for construction of the more than $30 million sheet vinyl flooring plant in Mullingar, Ireland, about 50 miles west of Dublin. The facility, which is scheduled to begin operation in mid-1977, will provide duty-free access to the European Economic Community, the fastest-growing market area for GAF's resilient sheet flooring. The plant will also manufacture sheet flooring for export to other countries around the world. An offer from the Industrial Development Authority of Ireland of a substantial non-repayable grant, special tax advantages, and a standing offer to absorb personnel training costs made that country a clear choice for the plant.

The previously announced expansion of GAF's European photo manufacturing plant, at Sint-Niklaas, Belgium, is proceeding on schedule and is expected to be completed by the end of 1976.

GAF/Hüls plant on schedule

Also on schedule is construction of the previously announced $30 million-plus butanediol plant in West Germany, a 50/50 joint venture with Chemische Werke Hüls, one of Germany's foremost chemical companies. Butanediol, currently produced at GAF plants in Texas City, Tex., and Calvert City, Ky., is the key ingredient in the engineering plastic PBT, which GAF will manufacture in the United States (see Chemical, p. 4). This increased capacity assures GAF of sufficient butanediol to remain a major marketer of the chemical internationally, as well as to provide for its own manufacturing needs.

To enhance GAF's market share in Europe for sheet vinyl flooring and photo products, the company strengthened its marketing teams in 1975, principally by the addition of sales personnel.

GAF's sound movie cameras were introduced into the Canadian and European markets and were an immediate success. Sales were hampered only by limited product availability. A new generation of View-Master® viewers and new packaging of View-Master reels were well received in most European markets.

Micrographics growth

In Europe, the micrographics market continues to expand. Two microfiche readers, models 7700DMR and 7800DMR, were successfully introduced into European markets as well as Australia in 1975. Three new diazo machines, models 176FL, 182FL and 185FL, also were introduced during the year and have gained wide acceptance in many countries because they meet stringent environmental regulations.

New phototypesetting paper was successfully test marketed overseas during the latter half of 1975. These products, which are used extensively in newspaper publishing, will be marketed worldwide during 1976.

Fiscal controls and import restrictions hampered exports to Argentina, Brazil, Mexico, and the Philippines during the latter half of 1975. At the same time, GAF has broadened the base of its international business by continuing to develop new markets around the world.

The company's cost-reduction program resulted in manufacturing economies, inventory reductions, and slowed the rate of increase of operating expenses in International operations.

CORPORATE

Research & Development

Research & Development generated the new products and processes discussed throughout this report. In 1975, R&D continued to expand, both in function and facilities. The company placed continued emphasis on programs aimed at effecting major cost savings and quality improvements in manufacturing; the creation of new products in such fields as plastics, agricultural chemicals, photographic films, and resilient flooring; and the development of new applications for existing products. Projects of particular note include technological support for the GAF/Hüls butanediol joint venture (see International, p. 10), the new PBT manufacturing program (see Chemical, p. 4), and work in dyes to improve quality and widen applications.

Engineering Services

Some $7.8 million was spent during 1975 to help contain or eliminate pollution at GAF's facilities. That brings to over $40 million the company's capital appropriations for environmental systems since it began its accelerated pollution-control program in 1965. The company believes it is making good headway in this field and, barring unforeseen changes in government regulations, is well on its way to full compliance throughout its operations. GAF's pollution-control projects are substantially on schedule with commitments made to federal and state agencies.

Among the significant advances of 1975:

- □ A liquid-waste treatment facility for the Calvert City, Ky., plant was completed.
- □ A liquid-waste pretreatment facility was constructed at the Binghamton, N.Y., plant, and startup procedures were near completion at year end.
- □ A liquid-waste pretreatment facility for the Rensselaer, N.Y., plant was completed.
- □ Final plans and specifications for waste treatment facilities were in progress for the Bound Brook, N.J., plant; plans for treating industrial waste were submitted to appropriate government agencies in connection with the company's plants in Linden, N.J., and Chattanooga, Tenn.
- □ With the completion of the asphalt fume control system at the Erie, Pa., plant, all significant sources of asphalt emissions at GAF's 13 roofing facilities are now under control.

The corporate Industrial Engineering department, which acts as an internal engineering consulting group to all units of the company, placed greatest emphasis on cost-reduction projects in 1975. This department and other technical services units were responsible for continued development and implementation of energy conservation programs throughout GAF.

Purchasing

The conflict of recession and inflation, combined with the ready availability of virtually all materials, drove some prices up and some down, but the trend continued upward. In this mixed market, GAF's total costs increased for the year, but the Purchasing department was able to effect appreciable savings on many major purchases.

Marketing Services

The company continued its active worldwide program of advertising and promotion in 1975, supporting the sale of existing products, new-product introductions, and brand-identification efforts in a generally unfavorable marketing climate. An intensive, coordinated advertising and promotion campaign was conducted through television, radio, newspapers and consumer magazines, as well as through trade and industry publications, dealer and point-of-purchase promotions, packaging design, and related functions.

Henry Fonda completed his sixth year as domestic spokesman for GAF products, and his contract was renewed for 1976. Commercials were made for television and radio, both for national audiences involving such products as film, cameras, projectors, View-Master products, and roofing, flooring, and siding, as well as localized and specialized commercials for GAF agricultural chemicals and other products and services.

Other activities included coordination of the company's trade show activities, co-sponsoring of revivals of the original Mickey Mouse Club television shows in some 120 markets throughout the United States, and maintaining GAF as the "Official Film" of 16 amusement/theme parks around the United States.

Personnel

The special emphasis on safety and security continued to grow during 1975, with the initiation of a Safety by Objective program at GAF plants throughout the United States. Results were quite encouraging: during the year the company reduced work injuries by 15.8% compared with a year earlier. In addition to the human factors involved, such a reduction can be translated into a sizable savings for the company.

Over one thousand employees participated in management development and training programs at sites around the country. In addition, special workshops were conducted to increase supervisory efficiency.

GAF continued to emphasize the recruitment, employment and advancement of minorities and women at all levels throughout the organization. Minority employees accounted for approximately 15% of GAF's workforce in 1975, and a number of these employees achieved significant advancement within the organization during the year.

Thirty-eight labor contracts and pension agreements were negotiated in 1975, and a total of 34 negotiations are scheduled for 1976. Three major work stoppages were resolved during the year at the Building Materials plants in Baltimore, Md., Whitehall, Pa., and Long Beach, Calif. A strike that began at the Chemical group's Annapolis, Mo., granules plant in December was settled in early February 1976.

Government Sales

To further its program of marketing to the federal government, the company opened an office in Washington, D.C., and expanded the sales staff to include specialists in each of GAF's major marketing functions. A substantial increase in the number of GAF's government contracts can be directly attributed to the company's efforts in this field.

Management

In April, Jack F. Gow was elected group vice president in charge of the Photo & Repro group. Formerly vice president in charge of Personnel Relations, Mr. Gow was succeeded in that position by Allan Sloan. Prior to his election as a vice president, Mr. Sloan served as labor personnel counsel and director of GAF's Equal Employment Opportunity program.

Also in April, Frank W. Wetherill was elected vice president with responsibility as director of manufacturing for the Chemical group. Mr. Wetherill, formerly manager of GAF's Texas City, Tex., chemical complex, succeeds vice president George F. Dappert, who took over the newly created position of director of manufacturing for the International group.

In October, A. Eugene Stillman became vice president and controller. Mr. Stillman was most recently vice president-finance for Bausch & Lomb, Inc.

Board of Directors

In January 1976, two new members were elected to the GAF Board of Directors. They are William S. Ogden, executive vice president and a member of the management committee of The Chase Manhattan Bank, N.A., and William Sword, partner, Wm. Sword & Co., and former managing director of Morgan Stanley & Company, Inc. They replaced T. Roland Berner and Victor E. Rockhill, who resigned.

Mr. Berner served on the board for 11 years, and was untiring in his devotion to the corporation. We shall miss his earnest efforts and his wise counsel.

Mr. Rockhill provided excellent guidance in his four years of association with GAF and we extend our best wishes to him.

GAF CORPORATION
Board of Directors

Jesse Werner*
Chairman

Philip B. Dalton
Executive Vice President
GAF Corporation

Kenneth C. Foster**
Former President
The Prudential Insurance
Company of America

Rainer E. Gut* **
General Manager
Credit Suisse

Wm. Peyton Marin*
Attorney

Juliette M. Moran
Executive Vice President
GAF Corporation

William S. Ogden
Executive Vice President
Chase Manhattan Bank, N.A.

James J. O'Leary**
Vice Chairman of the Board
United States Trust Company
of New York

James T. Sherwin
Executive Vice President
GAF Corporation

William Sword
Wm. Sword & Co., Inc.

Howard S. Turner**
Chairman of the Board
Turner Construction Company

GAF CORPORATION
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Chairman of the Board
and President

Philip B. Dalton
Executive Vice President

Juliette M. Moran
Executive Vice President

James T. Sherwin
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James M. Cloney
Senior Vice President

Joseph G. Hall
Senior Vice President

Frank T. Campagna
Group Vice President

R. Power Fraser, Jr.
Group Vice President

Jack F. Gow
Group Vice President

N. Paul Klaas
Group Vice President

Raymond Addeo
Vice President

John J. Butler
Vice President

George F. Dappert
Vice President

Thomas A. Dent
Vice President

Leo S. Faneuf
Vice President

Alfred Geduldig
Vice President

Simon W. Kantor
Vice President

Frederick W. McNabb, Jr.
Vice President
General Counsel and Secretary

Richard C. Mullen
Vice President

Jay R. Olson
Vice President and
Treasurer

Alfred P. Rimlinger
Vice President

Jack Scheckowitz
Vice President

Allan Sloan
Vice President

Raymond W. Smith
Vice President

Richard F. Smith
Vice President

A. Eugene Stillman
Vice President and
Controller

Frank E. Wetherill
Vice President

*Member, Executive Committee
**Member, Audit Committee

At Home

GAF products are part of your life... at home, at work, and at play. Here are some of the ways.

1 GAF color print film is available in the most popular sizes.

2 GAF high-purity iron powders are used in television and radio circuitry.

3 Flame-retardant GAF chemicals add protection to curtain fabrics, and GAF brighteners help make them white.

4 GAF View-Master® rear-screen projector shows big, bright pictures even in a lighted room.

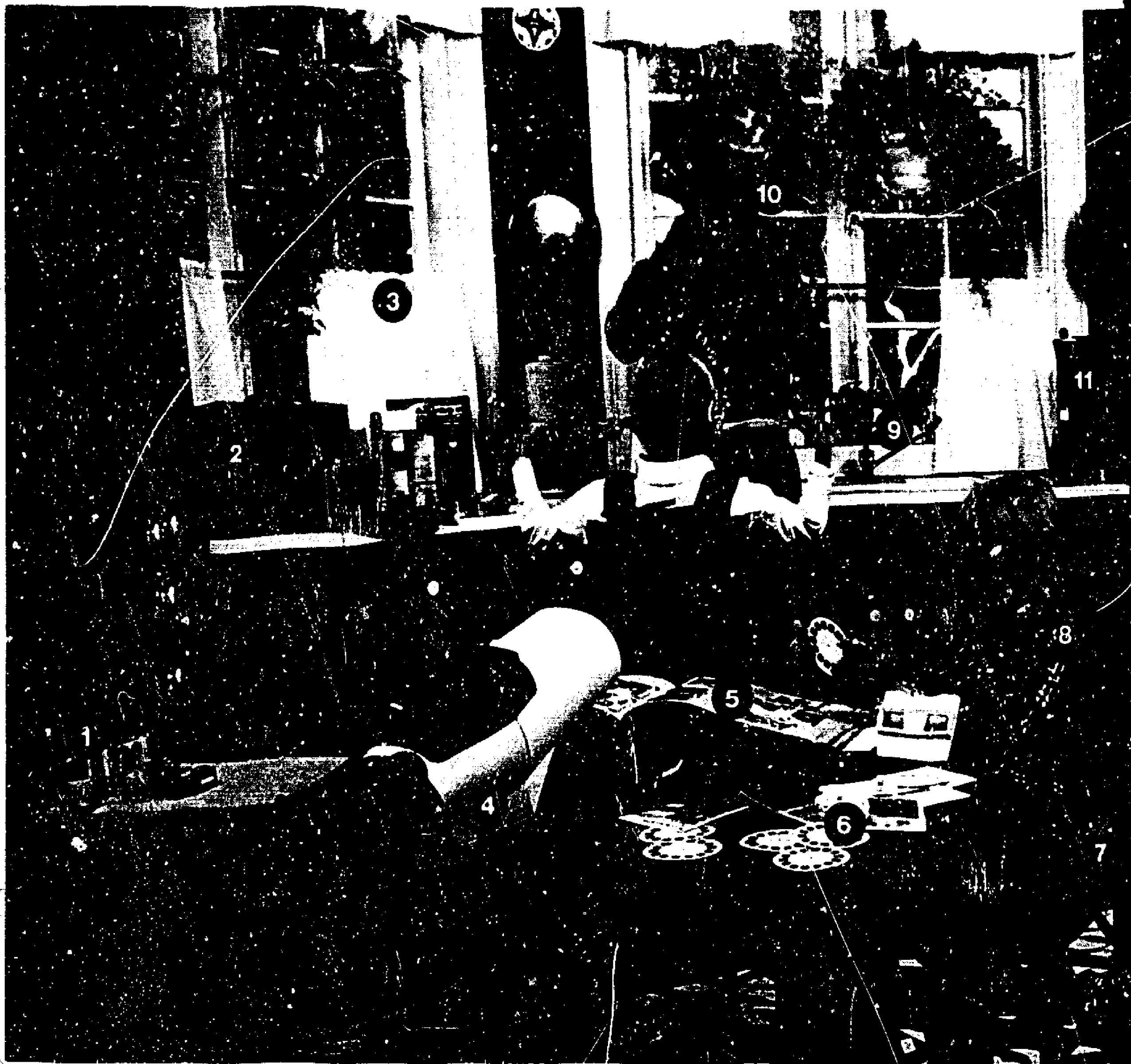
5 GAF's processing laboratories in the U.S. and Europe provide quality finishing for black and white and color films.

6 GAF's line of View-Master® stereo products includes thousands of different pictures in standard and talking reels.

7 GAF latex backings give upholstery textiles added eye-appeal and enhance durability.

8 GAF's broad spectrum of dyes put the color into natural and synthetic fibers.

9 GAF surfactants in metal polishes help to keep chrome, stainless steel and other metals gleaming.



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9 GAF butanediol is a key ingredient of the strong PBT front and rearend panels, and of the polyurethane bumpers on many cars.

10 GAF surfactants and other chemicals help give modern motor oils, lubricants, and antifreeze their special qualities.

11 GAF surfactants give smooth application to alkyd and oil-based house paints.

12 Top of the line, Timberline® asphalt roofing shingles have the beauty and charm of wood shingles, but give added protection.

13 GAF washing and scouring agents and chemical detergents are in many auto polishes, tire cleaners, and metal cleaners to help maintain that showroom look.

14 GAF Uvinul® protects vinyl roofs and decorative panels against the elements.

15 GAF driveway sealer protects and reconditions blacktop driveways and parking areas.

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Financial Review

Lines of Business

	Dollars in Millions						
Year Ended December 31	**1975**	1974*	1973*	1972	1971	1970	1969
Net Sales by Group							
Chemical	**$235.1**	$237.1	$215.3	$193.6	$177.3	$172.7	$181.6
Photo & Repro	**357.0**	351.1	330.2	296.3	260.4	223.3	221.5
Building Materials	**372.3**	360.6	303.4	278.6	246.1	187.5	188.9
Total	**$964.4**	$948.8	$848.9	$768.5	$683.8	$583.5	$592.0
Direct Operating Profit by Group							
Chemical	**$ 36.2**	$ 45.7	$ 29.8	$ 24.4	$ 24.3	$ 24.8	$ 28.4
Photo & Repro	**4.8**	10.0	18.3	11.5	7.3	2.1	11.7
Building Materials	**48.8**	43.5	38.8	48.1	44.4	22.8	21.9
Total	**$ 89.8**	$ 99.2	$ 86.9	$ 84.0	$ 76.0	$ 49.7	$ 62.0

Consolidated Summary of Operations

	Dollars in Millions						
Year Ended December 31	**1975**	1974*	1973*	1972	1971	1970	1969
Net Sales	**$964.4**	$948.8	$848.9	$768.5	$683.8	$583.5	$592.0
Cost of Products Sold	**691.1**	672.9	593.0	535.4	477.2	419.8	417.3
Direct Operating Expenses	**183.5**	176.7	169.0	149.1	130.6	114.0	112.7
Direct Operating Profit	**89.8**	99.2	86.9	84.0	76.0	49.7	62.0
Discontinued Operations Operating Loss	**—**	—	—	—	(4.3)	(2.6)	(1.0)
Unallocated Corporate Expenses:							
Interest	**(16.6)**	(16.8)	(12.1)	(10.2)	(10.4)	(11.6)	(10.7)
Other	**(26.7)**	(32.8)	(19.2)	(23.5)	(23.7)	(19.9)	(20.6)
Income before Income Taxes and Extraordinary Items	**46.5**	49.6	55.6	50.3	37.6	15.6	29.7
Income Taxes	**(15.6)**	(21.1)	(23.8)	(22.6)	(15.7)	(7.2)	(14.5)
Income before Extraordinary Items	**30.9**	28.5	31.8	27.7	21.9	8.4	15.2
Extraordinary Items	**—**	—	—	—	(8.4)	6.3	(4.1)
Net Income	**$ 30.9**	$ 28.5	$ 31.8	$ 27.7	$ 13.5	$ 14.7	$ 11.1
Data per Common Share	Dollars						
Primary Earnings:							
Income before Extraordinary Items	**$ 2.06**	$ 1.84	$ 2.06	$ 1.75	$ 1.33	$ .34	$ .85
Extraordinary Items	**—**	—	—	—	(.62)	.46	(.31)
Net Income	**$ 2.06**	$ 1.84	$ 2.06	$ 1.75	$ .71	$ .80	$ .54
Fully Diluted Earnings:							
Income before Extraordinary Items	**$ 1.79**	$ 1.62	$ 1.74	$ 1.49	$ 1.19	$ .38	$ .83
Extraordinary Items	**—**	—	—	—	**	.41	**
Net Income	**$ 1.79**	$ 1.62	$ 1.74	$ 1.49	**	$ .79	**
Weighted Average Number of Common Shares Outstanding (in thousands)	**13,237**	13,518	13,631	13,687	13,609	13,594	13,499
Dividends on Common Shares	**$ .52**	$ .46	$ .42	$ .40	$ .40	$ .40	$ .40
Shareholders' Equity	**$22.35**	$20.87	$18.83	$17.19	$15.77	$15.45	$14.96

*Restated—See Note 2 of Notes to Consolidated Financial Statements.
**Figure omitted because not dilutive.

Management's Discussion and Analysis of Summary of Operations

1975 Compared with 1974

Sales increased 2% in 1975, led by the Building Materials (+3%) and Photo & Repro (+2%) product sales groups. The increase resulted from higher prices in most major product lines partially offset by generally lower unit sales volumes.

Higher Building Materials sales were principally due to strong demand in the U.S. re-roofing market. Increased Photo & Repro sales were largely the result of price increases and domestic graphic arts and printExpress* sales gains. Chemical sales (–1%) reflected depressed economic activity worldwide. Volumes declined in the domestic felt and acetylene chemical lines, more than offsetting significant sales gains in agricultural chemical products.

Cost reduction programs succeeded in holding direct operating expenses at levels slightly higher than in 1974. Selling expenses increased in line with planned personnel increases and programs for deeper market penetration. Administrative and general expenses increased primarily due to higher costs of services.

Direct operating profit* declined in both the Chemical and Photo & Repro groups as a result of lower sales volume and operating levels at manufacturing plants, and the inability to pass on all cost increases. Building Materials profit was significantly above last year because price increases held as volume increased in the latter half of the year.

Unallocated corporate interest expense tapered off from 1974's high levels as a result of reduced prime rates and reduction of short-term debt through the use of internal financing.

Other unallocated corporate expenses for 1975 were slightly below 1974, due principally to a $4.0 million nontaxable gain on the sale of technology and know-how to the GAF/Hüls Chemie G.m.b.H. joint venture. Cost increases resulted from increased staff operating expenses, legal costs, and inflationary administrative costs.

Provision for 1975 income taxes decreased $5.5 million (26%) due to a pretax income decline of $3.1 million (6%) and a 8.9 percentage point decrease in the effective tax rate due to the above-noted $4.0 million nontaxable gain, larger investment tax credits, and greater benefit from exporting activities.

The effects of the accounting change for foreign translation gains (losses) (see Note 2) as restated in the summary of operations for the years 1975, 1974 and 1973 are as follows:

	1975	1974	Change	1973	Change
Income Before Income Taxes & Extraordinary Items	$3.5	$(6.5)	$10.0	$3.6	$(10.1)
Income Taxes	(1.8)	2.5	(4.3)	(0.7)	3.2
Net Income	$1.7	$(4.0)	$ 5.7	$2.9	$(6.9)

The effect for 1972 and earlier was immaterial.

1974 Compared with 1973

Consolidated sales for 1974 improved substantially (except in Photo & Repro) as price increases more than compensated for lower unit sales volumes (influenced by raw material shortages). Sales growth, however, was restrained because early 1974 price controls delayed the pass-through of inflationary cost increases for raw materials, labor, fringe benefits and plant operations. All groups were adversely affected by the economic slowdown late in the year, which necessitated cutbacks in production to adjust inventory levels.

During 1974 the company adopted LIFO accounting for dyestuffs and pigments inventories at Rensselaer, N.Y., which resulted in increased costs of $3.9 million (with a favorable income tax and cash flow effect of $1.8 million).

Direct operating expenses increased moderately in absolute dollars, but declined as a percent of net sales. The increase reflects a $13.6 million rise in 1974 cost and spending levels (principally marketing expenses–distribution and selling $7.7 million–7%, and advertising $1.0 million–6%), offset in part by a nonrecurring 1973 charge of $5.9 million relating to the phaseout of Linden, N.J. facilities.

Direct operating profit* increased primarily as a result of price increases more than compensating for lower sales volumes and higher costs. Significant gains were made in Chemical and Building Materials. The Photo & Repro group was adversely affected by the price/cost squeeze, and profits declined.

Unallocated corporate interest expense for 1974 increased substantially from 1973 because of record 1974 rates of interest and higher average levels of short-term borrowings.

Other unallocated corporate expenses for 1974 increased $13.6 million (71%). Of this amount, $9.5 million resulted from increased staff operating expenses (increased legal costs of $1.4 million, and generally higher administrative costs consistent with inflationary trends) and the effect of the accounting change for foreign translations. The balance of $4.1 million is the result of smaller gains in 1974 as compared with 1973 as follows:

1974–A net gain of $1.9 million was realized from a $5.5 million profit on repurchase of 5% convertible subordinated notes, $1.4 million profit on sales of three properties, partially offset by a charge of $5.0 million associated with the move of administrative activities to Wayne, N.J.

1973–A net gain of $6.0 million was realized from a $6.4 million profit on repurchase of 5% convertible subordinated notes partially offset by a $0.4 million loss on lease terminations.

The 1974 provision for income taxes increased only slightly on a significant pretax gain as a result of a 0.4 percentage point decrease in the effective tax rate.

The extraordinary items for the years 1969 through 1971 were as follows: During 1971 the company discontinued manufacture of various chemicals resulting in a net $9.7 million provision for disposal of assets. Accordingly, 1969 and 1970 results were restated. Partially offsetting the charge was a $1.0 million net gain in translation of foreign currencies. The company changed its investment tax credit accounting to the current recognition method from the deferral method, thereby increasing income by an average of approximately $1.4 million per year. In 1970 the extraordinary gain of $6.3 million consisted of a net $2.4 million gain on the sale of the company's Texas production facilities for Amiben, abandonment of its original facility in New Jersey, and renegotiation of the Amiben supply contract. In addition, the company's English subsidiary realized a net gain of $3.9 million from the sale of its London headquarters. In 1969 a net $4.1 million extraordinary loss was provided for the disposal of certain plant facilities and related costs.

*Direct operating profit for each of the company's three worldwide product sales groups is on a direct responsibility basis. Accordingly, corporate staff and interest expenses are not allocated.

Financing Activities

A substantial improvement in cash flow occurred during 1975 as a result of an $18.5 million reduction in inventory and a $.6 million reduction in accounts receivable. This positive cash flow permitted the company to reduce:

- long-term debt (including the current portion) by $19.6 million, including a prepayment of $12.0 million of its $60.0 million 7-year bank term loan with a corresponding reduction in the compensating balance requirements;
- short-term debt by $10.7 million;
- lines of credit for short-term financing.

Long-term financing in 1975 consisted primarily of a $.8 million 10-year tax-exempt issue for a pollution control project in Binghamton, N.Y.

At December 31, 1975, working capital was $267.8 million compared with $304.3 million a year ago. The ratio of current assets to current liabilities at year-end was 2.9:1. The capital base was 31% long-term debt (including the current portion) and 69% shareholder equity.

Cash requirements to meet maturing debt obligations over the next five years are:

1976	$27,683,000
1977	$10,179,000
1978	$23,389,000
1979	$23,399,000
1980	$19,178,000

Financial Condition

	Dollars in Millions						
December 31	**1975**	1974*	1973*	1972	1971	1970	1969
Current Assets	**$ 411.5**	$ 435.2	$ 364.0	$ 340.3	$ 319.0	$ 289.8	$ 297.8
Current Liabilities	**143.7**	130.9	112.6	132.0	113.8	84.5	99.8
Working Capital	**267.8**	304.3	251.4	208.3	205.2	205.3	198.0
Property, Plant and Equipment–Net	**243.6**	231.6	221.2	225.9	222.6	231.2	235.8
Total Assets	**705.4**	709.4	628.4	610.8	588.3	561.2	574.2
Long-term Debt–Including Current Portion	**166.9**	186.4	136.6	136.7	155.6	152.5	156.8
Shareholders' Equity	**379.0**	357.6	342.9	321.3	301.8	297.1	290.2

Employment Summary

	Dollars in Millions						
Year Ended December 31	**1975**	1974	1973	1972	1971	1970	1969
Net Sales	**$ 964.4**	$ 948.8	$ 848.9	$ 768.5	$ 683.8	$ 583.5	$ 592.0
Number of Employees (Year-end)	**20,231**	22,213	22,544	22,827	21,955	19,773	21,088
Wages and Salaries Including Fringes	**$ 261.4**	$ 257.9	$ 246.4	$ 224.7	$ 204.9	$ 183.3	$ 180.4
	Dollars						
Net Sales per Employee	**$47,669**	$42,714	$37,655	$33,666	$31,146	$29,510	$28,081
Wages and Salaries, Including Fringes, as a % of Sales	**27.1%**	27.2%	29.0%	29.2%	30.0%	31.4%	30.5%
Average Wages and Salaries Including Fringes	**$12,921**	$11,610	$10,930	$ 9,845	$ 9,334	$ 9,273	$ 8,555

*Restated–See Note 2 of Notes to Consolidated Financial Statements.

Quarterly Data

	Dollars in Millions							
	1975—By Quarter				1974—By Quarter			
	First*	Second*	Third*	Fourth	First*	Second*	Third*	Fourth*
Consolidated Statement of Income Information								
Net Sales	$209.8	$235.8	$265.7	$253.1	$215.8	$247.9	$252.2	$232.9
Cost of Products Sold	151.5	170.0	187.7	181.9	157.1	172.6	174.2	169.0
Gross Profit	58.3	65.8	78.0	71.2	58.7	75.3	78.0	63.9
Net Income	3.6	10.2	12.1	5.0	3.5	10.3	11.2	3.5
Earnings per Share:								
				Dollars				
Primary	.21	.70	.85	.30	.19	.68	.75	.22
Fully Diluted	.21	.60	.70	.28	.19	.58	.63	.22
Dividends per Share:								
				Dollars				
Common	.13	.13	.13	.13	.11	.11	.11	.13
Preferred	.30	.30	.30	.30	.30	.30	.30	.30
Price Range of Securities on the New York Stock Exchange								
Common: (Low-High)	7⅛-11⅜	9¼-12½	9½-13¼	9½-11¾	8¾-11⅝	8⅛-10⅛	6-8¾	6⅜-8¾
Preferred: (Low-High)	13-16¾	15⅛-17½	14½-18¼	14½-16⅞	15¼-17⅞	14¼-16⅞	11¾-14⅜	11¾-14¾

Foreign Operations

The company's foreign subsidiaries are located principally in Canada, Western Europe and Australia.

The consolidated financial statements include the following amounts with respect to foreign subsidiaries (all of which are wholly owned):

Balance Sheet	Dollars in Thousands	
December 31	**1975**	1974*
Current assets	**$72,814**	$74,727
Other assets	**12,691**	10,889
Total assets	**85,505**	85,616
Current liabilities	**28,137**	35,498
Other liabilities	**8,645**	5,928
Total liabilities	**36,782**	41,426
Net assets	**$48,723**	$44,190

Statement of Income	Dollars in Thousands	
Year Ended December 31	**1975**	1974*
Net sales	**$135,526**	$129,172
Net income	**$ 5,248**	$ 5,201

*Restated—See Note 2 of Notes to Consolidated Financial Statements.

Audit Committee

The Board of Directors Audit Committee, consisting of outside directors, meets separately with the independent certified public accountants and company management at least twice a year to discuss the scope and results of the annual examination, internal accounting controls and significant accounting matters.

GAF Corporation and Consolidated Subsidiaries
Summary of Significant Accounting Policies

Principles of Consolidation
The accounts of all significant subsidiaries of the company are included in the consolidated financial statements.

Translation of Foreign Currencies
Cash, accounts receivable and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates; all other assets, deferred income taxes and depreciation are translated at historical rates. Operating accounts, except for depreciation, are translated using average exchange rates to approximate the rates in effect when transactions were consummated.

Foreign exchange gains or losses are included in net income for the period in which the exchange rate changes.

Inventories
Inventories, other than dyestuffs and pigments, are valued at the lower of cost (principally average) or market. Dyestuffs and pigments inventories are valued at cost, determined by the last-in, first-out (LIFO) method.

Property, Plant and Equipment, and Related Depreciation
Expenditures for maintenance and repairs are charged directly to expense; major replacements and betterments are capitalized and depreciated over the remaining estimated economic lives of the related assets. The cost and related accumulated depreciation of property sold, retired or fully depreciated are removed from the accounts and any resultant gain or loss is included in current income.

Depreciation is computed principally on the straight-line method based on the estimated economic lives of the assets. These lives are subject to annual review and revision to assure that the cost of the related assets is written off over their economic lives.

Cost in Excess of Net Assets Acquired
Cost in excess of net assets acquired in connection with acquisitions prior to November 1, 1970, is not being amortized because there has been no diminution in value; such cost relating to acquisitions made subsequent to October 31, 1970, all of which has continuing value, is being amortized on the straight-line method over a period of forty years.

Deferred Income Taxes
Deferred income taxes arise from reporting certain income and expense items in the financial statements in periods different from those in which such amounts are reported for United States income tax purposes.

Investment Tax Credit
The company accounts for investment tax credits arising since January 1, 1971, as a reduction of the provision for United States income tax (the flow-through method). Investment tax credits which arose prior to that date have been deferred and are being amortized over the estimated service lives of the related assets.

Research and Development Costs
Expenditures for research and development are charged to income as incurred.

Retirement Plans
The company and its subsidiaries have retirement plans covering substantially all employees. The company's policy is to fund amounts equal to pension costs accrued and, for plans with prior service costs, to amortize such costs over periods not to exceed forty years.

Earnings per Share
Primary earnings per common share are computed by dividing net income, less preferred stock dividend requirements, by the weighted average number of shares of common stock outstanding during the year. The computation assumes the exercise of outstanding stock options to the extent they are dilutive.

Fully diluted earnings per common share are computed on the assumption (where the effect thereof would be dilutive) that convertible securities outstanding had been converted into shares of common stock. Appropriate adjustments for dividends on preferred stock and interest on convertible notes (net of income tax effect) are made to earnings applicable to common stock for assumed conversions. The computation also assumes the exercise of all dilutive stock options.

Consolidated Statement of Income

Year Ended December 31	1975	1974 (Note 2)
Net Sales	**$964,421,000**	$948,809,000
Costs and Expenses		
Cost of products sold (Note 3)	**691,104,000**	672,930,000
Distribution and selling	**134,255,000**	129,686,000
Advertising	**18,409,000**	19,378,000
Research and development	**15,272,000**	15,011,000
Administrative and general	**45,623,000**	44,216,000
Interest (Note 6)	**16,555,000**	16,792,000
Total Costs and Expenses	**921,218,000**	898,013,000
Other Income (Charges)		
Gain on sale of technology and know-how (Note 1)	**4,000,000**	—
Office relocation expenses (Note 4)	**(659,000)**	(5,045,000)
Gain on reacquisition of 5% convertible notes	**—**	5,523,000
Other—net	**(35,000)**	(1,721,000)
Total Other Income (Charges)—Net	**3,306,000**	(1,243,000)
Income Before Income Taxes	**46,509,000**	49,553,000
Income Taxes (Note 7)	**15,563,000**	21,036,000
Net Income	**$ 30,946,000**	$ 28,517,000
Weighted Average Number of Common Shares Outstanding	**13,237,000**	13,518,000
Earnings per Common Share		
Primary	**$2.06**	$1.84
Fully diluted	**$1.79**	$1.62

Consolidated Statement of Retained Earnings

For the Year	1975	1974
Balance, January 1, as previously reported	**$294,189,000**	$271,619,000
Restatement of prior years' income for change in accounting for foreign currency translation (Note 2)	**(1,081,000)**	2,895,000
Balance, January 1, as restated	**293,108,000**	274,514,000
Net Income	**30,946,000**	28,517,000
Less cash dividends:		
Preferred stock ($1.20 per share)	**3,635,000**	3,705,000
Common stock (1975—$.52 per share, 1974—$.46 per share)	**6,873,000**	6,218,000
Balance, December 31	**$313,546,000**	$293,108,000

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

December 31	1975	1974 (Note 2)
Assets		
Current Assets		
Cash	**$ 12,623,000**	$ 15,235,000
Accounts receivable—trade, less allowance for doubtful accounts—1975, $4,908,000; 1974, $3,902,000	**151,233,000**	153,965,000
Accounts receivable—other	**10,159,000**	7,983,000
Inventories (Note 3)		
Finished goods	**106,180,000**	105,647,000
Work in process	**46,329,000**	43,948,000
Raw materials and supplies	**78,432,000**	99,865,000
Total Inventories	**230,941,000**	249,460,000
Prepaid expenses	**6,523,000**	8,537,000
Total Current Assets	**411,479,000**	435,180,000
Property, Plant and Equipment, at cost		
Land and land improvements	**15,083,000**	14,724,000
Buildings and building equipment	**104,585,000**	100,867,000
Machinery and equipment	**270,639,000**	255,048,000
Construction in progress	**17,076,000**	21,143,000
Total Property, Plant and Equipment	**407,383,000**	391,782,000
Less accumulated depreciation	**163,815,000**	160,140,000
Property, Plant and Equipment—Net	**243,568,000**	231,642,000
Cost in Excess of Net Assets Acquired of which $2,493,000 at December 31, 1975, is being amortized	**34,790,000**	34,998,000
Other Assets	**15,596,000**	7,629,000
Total Assets	**$705,433,000**	$709,449,000

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

December 31	1975	1974 (Note 2)
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (Note 6)	$ 21,754,000	$ 32,431,000
Current portion of long-term debt (Note 6)	27,683,000	5,243,000
Accounts payable	47,016,000	42,316,000
Accrued liabilities	41,127,000	40,453,000
United States and foreign income taxes	6,071,000	10,444,000
Total Current Liabilities	143,651,000	130,887,000
Long-term Debt Less Current Portion (Note 6)	139,166,000	181,173,000
Deferred Credits		
Deferred income taxes	35,231,000	31,884,000
Deferred investment tax credit	3,726,000	4,298,000
Total Deferred Credits	38,957,000	36,182,000
Other Liabilities	4,626,000	3,619,000
Commitments and Contingent Liabilities (Note 11)		
Shareholders' Equity (Notes 6, 8 & 9)		
Preferred stock, $1 par value; authorized 6,000,000 shares; $1.20 convertible series issued—1975, 3,105,706 shares; 1974, 3,105,411 shares; at assigned value of $1.25 per share (liquidation value 1975, $83,306,000)	3,882,000	3,882,000
Common stock, $1 par value; authorized 25,000,000 shares; issued—1975, 13,764,090 shares; 1974, 13,763,715 shares	13,764,000	13,764,000
Additional paid-in capital	53,151,000	52,791,000
Retained earnings	313,546,000	293,108,000
Total	384,343,000	363,545,000
Less stock held in treasury, at cost:		
Common—1975, 534,949 shares; 1974, 620,949 shares	4,380,000	5,025,000
Preferred—1975, 76,400 shares; 1974, 76,400 shares	932,000	932,000
Total Shareholders' Equity	379,031,000	357,588,000
Total Liabilities and Shareholders' Equity	$705,433,000	$709,449,000

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position

Year Ended December 31	1975	1974 (Note 2)
Funds Provided		
From operations:		
Net income	$ 30,946,000	$ 28,517,000
Charges (credits) not affecting working capital		
Depreciation	25,028,000	24,212,000
Deferred income taxes	3,347,000	1,351,000
Gain on reacquisition of 5% convertible notes	—	(5,523,000)
Office relocation expenses (noncurrent portion)	368,000	1,858,000
Translation losses (noncurrent portion)	640,000	4,255,000
Other	458,000	92,000
Funds provided from operations	60,787,000	54,762,000
Issuance of long-term debt	1,072,000	65,980,000
Property, plant and equipment dispositions	803,000	4,643,000
Other	(1,450,000)	587,000
Total	61,212,000	125,972,000
Funds Applied		
Additions to property, plant and equipment	37,995,000	39,288,000
Cash dividends	10,508,000	9,923,000
Reacquisition of $18,500,000 principal amount of 5% convertible notes less related gain of $5,523,000	—	12,977,000
Other reductions in long-term debt	42,505,000	6,278,000
Investment in joint venture company	6,549,000	—
Acquisition of common stock for treasury	120,000	3,718,000
Acquisition of preferred stock for treasury	—	932,000
Total	97,677,000	73,116,000
Increase (Decrease) in Working Capital	(36,465,000)	52,856,000
Working Capital, January 1	304,293,000	251,437,000
Working Capital, December 31	$267,828,000	$304,293,000
Analysis of Changes in Working Capital		
Increase (decrease) in current assets:		
Cash	$ (2,612,000)	$ 1,185,000
Accounts receivable	(556,000)	4,276,000
Inventories	(18,519,000)	66,592,000
Prepaid expenses	(2,014,000)	(839,000)
Total	(23,701,000)	71,214,000
Increase (decrease) in current liabilities:		
Notes payable	(10,677,000)	4,997,000
Current portion of long-term debt	22,440,000	4,350,000
Accounts payable	4,700,000	(1,533,000)
Accrued liabilities	674,000	8,228,000
United States and foreign income taxes	(4,373,000)	2,316,000
Total	12,764,000	18,358,000
Increase (Decrease) in Working Capital	$(36,465,000)	$ 52,856,000

See Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

1 Gain on Sale of Technology and Know-how

During 1975 the company and Chemische Werke Hüls, A G ("Hüls"), a West German company, formed a joint venture (GAF-Hüls Chemie G m b H) to construct and operate a butanediol manufacturing plant in West Germany. The joint venture is owned equally by the company and Hüls. The investment is included in Other Assets and has been accounted for by the equity method.

In the second quarter of 1975, the company sold certain technology and know-how to the joint venture resulting in a gain of $4,000,000 after elimination entries. This gain is not subject to U S income tax.

2 Change in Accounting for Foreign Currency Translation

The Financial Accounting Standards Board recently issued a Statement on accounting for the translation of foreign currency. The principal provisions of the Statement, as applied to the company, require that exchange gains or losses be included in net income and that inventories be translated at historical rates. During the fourth quarter of 1975, the company revised its previous policy (net translation gains were deferred and inventories were translated at current rates) to adopt the provisions of the new Statement. Previously reported financial statements for 1974 and the Consolidated Summary of Operations for 1973 have been restated accordingly. The effect on years prior to 1973 is not significant.

The effect of the change on net income of 1975 was an increase of $1,711,000 ($.13 per share—primary; $.10 per share—fully diluted). Previously reported net income for 1974 has been reduced by $3,976,000 ($.29 per share—primary; $.22 per share—fully diluted). Foreign exchange losses of $1,257,000 and $1,612,000 (after taxes) are included in net income for the years 1975 and 1974, respectively.

Reference is made to the Foreign Operations section of the Financial Review for net income and net assets of foreign subsidiaries.

3 Inventories

Effective with the year ended December 31, 1974, the company changed its method of accounting for dyestuffs and pigments inventories from the average cost method to the last-in, first-out (LIFO) method. The change to the LIFO method was made because management believes that the LIFO method more realistically matches current costs with current revenues. The effect of the change was to reduce the inventory at December 31, 1974 by $3,852,000 and net income for the year then ended by $1,786,000 ($.13 per share—primary; $.10 per share—fully diluted). There is no effect from the change on periods prior to 1974 since the December 31, 1973 inventory as previously reported was the opening inventory under the LIFO method. The current cost for these inventories exceeded their LIFO valuation by $4,712,000 and $3,852,000 at December 31, 1975 and 1974, respectively.

4 Office Relocation Expenses

During 1974 the company relocated certain staff and administrative activities from its New York City offices to a new facility in Wayne, New Jersey. Estimated relocation costs of $5,045,000 (before tax benefit of approximately $2,557,000) were charged to income in 1974. An additional charge of $659,000 (before tax benefit of approximately $334,000) was recorded in 1975.

5 Retirement Plans

The cost of employee retirement benefits amounted to $11,79_,000 in 1975 and $9,282,000 in 1974. At December 31, 197_, the actuarially computed value of vested benefits exceeded the total of pension funds and accrued liabilities for pension costs by $53,200,000. The estimated unfunded prior service cost at December 31, 1975 was $5_,800,000. The company does not anticipate any significant increase in the required contributions to the pension funds as a result of the 1974 pension reform act. However, under the act, the company is liable in the event of termination of plans for any guaranteed benefits (as defined by the act) in excess of the plans' net assets, limited to 30% of the company's net worth at the time of termination. Such liability for guaranteed benefits at December 31, 1975, is not readily determinable, but would be less than the unfunded vested benefits at that date. Following the general increase in security prices during 1975, the market value of the funds increased substantially.

6 Debt and Dividend Restrictions

Long-term debt at December 31, 1975, and 1974, was as follows:

	1975	1974
	Dollars in Thousands	
6½% Swiss Franc Note due October 1 1976	$ 19,085	$19,650
Promissory Notes, payable to banks, due May 15, 1980	24,000	24,000
Promissory Notes, payable to banks due December 31, 1981	48,000	60,000
5½% Convertible Subordinated Notes due April 1, 1983 with annual repayments of $200,000 on each April 1 through 1982 and the balance of $1,800,000 payable April 1, 1983	3,200	3,400
5% Convertible Subordinated Notes due April 1, 1994 with annual repayments beginning April 1, 1990	8,200	8,200
5⅝% Sinking Fund Debentures due December 1, 1991 with annual sinking fund payments of $2,500,000 on each December 1, less $2,869,000 and $1,653,000 in treasury in 1975 and 1974, respectively	37,131	40,847
Other notes, which bear interest at 3¾% to 9% and mature at various dates to 1986	27,235	30,319
Total	166,851	186,416
Less portion due within one year	27,683	5,243
Long-term debt, less current portion	$139,168	$181,173

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The promissory notes due in 1980 bear interest at 122% of the prime commercial lending rate through May 15, 1978 and 128% of such rate thereafter. Outstanding borrowings at December 31, 1975 are repayable in quarterly installments commencing in 1976.

The promissory notes due in 1981 bear interest at 115% of the prime commercial lending rate. Outstanding borrowings at December 31, 1976 are repayable in quarterly installments commencing in 1978. Pursuant to arrangements in connection with these notes, a compensating balance of 10% ($4,800,000 at December 31, 1975) of the outstanding debt is to be maintained.

The 5½% convertible subordinated notes are convertible into shares of common stock, at any time prior to April 2, 1976 at a conversion price of $28.72 per share (subject to anti-dilution adjustments in specified circumstances).

The 5% convertible subordinated notes are convertible into shares of common stock, at any time, at a conversion price of $27.50 per share (subject to anti-dilution adjustments in specified circumstances).

At December 31, 1975, GAF had domestic lines of credit aggregating $52,500,000 with interest generally at the prime commercial lending rate. Pursuant to certain of the domestic arrangements under which lines of credit were established, compensating balances are generally required to equal 20% of the outstanding borrowings and 10% of the unused portion of the lines of credit. At December 31, 1975, compensating balances amounted to approximately $4,250,000.

Dividends are restricted under provisions of certain loan agreements. Under the most restrictive of these provisions, shareholders' equity cannot be reduced below $348,214,000. Shareholders' equity at December 31, 1975 was $379,031,000.

Short-term debt at December 31, 1975 was $21,754,000 as compared with an average of $36,177,000 for the year 1975; the maximum amount of such borrowings outstanding at any month-end during 1975 was $53,808,000. The average interest rate on the year-end balance was 8.0% as compared with an average of 8.3% for the full year.

7 Income Taxes

Provision has not been made for the United States income taxes on unremitted earnings of foreign subsidiaries of $34,987,000, since any withholding taxes and United States income taxes payable on dividends based on undistributed earnings would be substantially offset by foreign tax credits or because the remittance of such earnings has been indefinitely postponed. United States income taxes have not been provided on the unremitted earnings of the Domestic International Sales Corporation subsidiary aggregating $7,758,000 through December 31, 1975, since the company intends to postpone indefinitely the remittance of such earnings.

The provision for income taxes consists of the following:

	1975	1974
State	$ 1,929,000	$ 2,212,000
United States—current	10,568,000	15,692,000
United States—deferred	2,923,000	(755,000)
United States investment tax credit	(2,925,000)	(1,448,000)
Amortization of deferred United States investment tax credit arising prior to 1971	(573,000)	(591,000)
Foreign	3,641,000	5,926,000
Total income taxes	$15,563,000	$21,036,000

The effective tax rates were 33.5% and 42.4% in 1975 and 1974, respectively. The reasons for the differences from the statutory rate of 48.0% are as follows:

	% of Pretax Income	
	1975	1974
Statutory rate	48.0%	48.0%
Increases (decreases) in taxes resulting from:		
Gain on sale of technology and know-how	(8.6)	—
United States investment tax credit	(7.5)	(4.1)
State and local income taxes, net of United States income tax benefit	2.2	2.3
Domestic International Sales Corporation—DISC	(2.9)	(1.8)
Other—net	2.3	(2.0)
Effective tax rate	33.5%	42.4%

The principal sources of United States deferred taxes were:

	1975	1974
Excess of tax depreciation over amount reported in Consolidated Statement of Income	$2,614,000	$2,297,000
Gain on reacquisition of 5% convertible notes	—	2,714,000
Foreign exchange transactions	(730,000)	(2,497,000)
Office relocation expenses	87,000	(1,352,000)
Other—net	952,000	(1,917,000)
Total deferred taxes	$2,923,000	$ (755,000)

8 Stock Option and Stock Purchase Plans
The 1975 stock option plan authorizes the grant of qualified and nonqualified stock options for 800,000 shares to key employees during a ten-year period ending February 11, 1985. The prices at which options may be granted may not be less than 100% of the fair market value of the shares on the dates the options are granted. No options have been granted under the 1975 stock option plan.

Subsequent to approval of the plan by approximately 80% of the voting shareholders (approximately 48.5% of the holders of outstanding shares of voting stock), the Internal Revenue Service issued a ruling with retroactive application requiring approval by more than 50% of the voting shares outstanding for the plan to be qualified. Accordingly, the plan is being resubmitted to shareholders at the Annual Meeting for the purpose of approving the plan in accordance with the requirements of the Internal Revenue Service, and to approve the plan as a nonqualified stock option plan.

The company's 1965 qualified stock option plan expired on March 31, 1975. Under the provisions of the plan, options to purchase shares of common stock were granted to key employees during a ten-year period. No further options may be granted under that plan. The prices at which options were granted were not less than 100% of the fair market value of the shares on the dates the options were granted. The options are exercisable after a one-year waiting period and terminate five years from date of grant. A summary of the transactions affecting options under the 1965 plan is as follows:

	Number of Shares		Average Option Price	
For the Year	**1975**	1974	**1975**	1974
Outstanding January 1	**178,050**	175,400	**$13.52**	$16.38
Granted	**163,000**	68,000	**9.69**	9.50
Exercised	—	—	—	—
Terminated	**(28,550)**	(65,350)	**12.00**	17.02
Outstanding December 31	**312,500**	178,050	**11.66**	13.52
Exercisable December 31	**152,000**	124,050	**13.74**	15.27
Available for Grant December 31	**—**	331,700		

Under the provisions of the company's 1969 restricted and unrestricted stock purchase plan, 650,000 shares of common stock may be sold to key employees. The plan currently provides that restricted and unrestricted shares may be sold at prices which are not less than 50% and 80%, respectively, of the closing market price preceding the date on which an employee is designated as one to whom shares may be offered. Under certain conditions, the company has the right to repurchase restricted shares of common stock at the original selling price.

9 Capital Stock
The $1.20 convertible preferred stock, dividends on which are cumulative, is convertible at any time into common stock at the rate of 1¼ shares of common stock for each share of preferred. The company may redeem the preferred stock at specified prices ranging from $28.50 per share through May 31, 1976 to $27.50 per share after May 31, 1977.

Transactions in common stock held in treasury were as follows:

	1975	197
Balance, January 1	**$5,025,000**	$1,334,000
Purchase of 22,000 shares in 1975 and 535,800 in 1974	**120,000**	3,718,000
Issuance, from treasury, of 108,000 shares in 1975 and 5,000 in 1974 (primarily in connection with sales under the restricted stock purchase plan)	**(765,000)**	(27,000)
Balance, December 31	**$4,380,000**	$5,025,000

As a result of the above issuance of treasury shares during 1975 and 1974 additional paid-in capital has been decreased by $185,000 and $1,000, respectively. The excess of quoted market value at date of grant over the aggregate sales price for restricted shares sold is amortized by charges to income over the restriction period. As a result of these charges, additional paid-in capital has been increased by $532,000 and $725,000 in 1975 and 1974, respectively. The unamortized balance to be amortized through 1984 amounted to $1,150,000 and $1,316,000 at December 31, 1975 and 1974, respectively.

The shares of common stock reserved for issuance at December 31, 1975 and 1974 were as follows:

Reserved for:	**1975**	1974
Conversion of $1.20 convertible preferred stock	**3,787,784**	3,788,159
Conversion of convertible subordinated notes	**409,602**	416,566
Exercise under stock option and purchase plans	**1,423,700**	906,950
Total	**5,621,086**	5,111,675

During 1974, 76,400 shares of preferred stock were purchased for $932,000 and remained in treasury at December 31, 1975. There were no purchases of preferred stock during 1975.

Notes to Consolidated Financial Statements
(continued)

10 Supplementary Financial Information

The following expenses have been included in the Consolidated Statement of Income:

For the Year	1975	1974
	Dollars in Thousands	
Maintenance and repairs	**$41,704**	$41,344
Taxes, other than taxes on income		
Social Security and unemployment	**16,550**	15,388
Other	**7,977**	7,738
Rent	**14,607**	14,532

Approximately 40% of rent expense is applicable to noncapitalized financing leases (as defined by the Securities and Exchange Commission). If the assets associated with such leases had been capitalized, the effect on net income would not have been significant in either 1975 or 1974. However, in such event, the expense presently recorded as rent would be comprised of two different elements (i.e. amortization of leaseholds and imputed interest). The amortization would represent the major portion of this expense.

11 Commitments and Contingent Liabilities

The company is obligated under various long-term, noncancellable leases at December 31, 1975, as follows:

Minimum Rental By Period — Dollars in Thousands

	Land & Land Improvements	Buildings & Building Equipment	Machinery & Equipment	Total
1976	$ 36	$ 4,534	$ 4,569	$ 9,139
1977	32	4,287	1,964	6,283
1978	32	3,911	1,312	5,255
1979	37	3,575	665	4,277
1980	37	3,356	344	3,737
1981-1985	183	16,589	407	17,179
1986-1990	154	11,115	196	11,465
1991-1995	5	8,275	—	8,280
Beyond 1995	10	3,389	—	3,399

The above amounts are for existing leases and do not represent a forecast of future expenses.

Approximately 60% of all rental commitments are applicable to noncapitalized financing leases.

The company had commitments of approximately $12,565,000 at December 31, 1975, for the acquisition of property, plant and equipment.

At December 31, 1975, there were certain lawsuits and claims pending against the company. In the opinion of management, the ultimate disposition of these matters will not materially adversely affect the company's consolidated financial position.

Auditors' Opinion

Haskins & Sells
Certified Public Accountants

Two Broadway
New York, N.Y. 10004

To the Shareholders and Board of Directors of GAF Corporation:

We have examined the consolidated balance sheet of GAF Corporation and its consolidated subsidiaries as of December 31, 1975 and 1974 and the related consolidated statements of income, retained earnings, and changes in financial position for the two years ended December 31, 1975. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of the companies at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the two years ended December 31, 1975, in conformity with generally accepted accounting principles which have been applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for foreign currency translation described in Note 2.

Haskins + Sells

February 6, 1976

GAF PRODUCTS AND SERVICES

BUILDING MATERIALS

GAF® Automotive Products
Automotive sound deadening and insulation products.

GAF® Floor Products
Resilient floor tiles, Sure-Stik® adhesive-backed floor tiles for "do-it-yourself" market; Gafstar® floor products and other sheet vinyl floorings, flooring felt, adhesives, cove base, and floor finishes and cleaners for residential and commercial uses.

GAF® Roofing, Siding and Insulation Products
Timberline® shingles and other roofing shingles; roll roofing; roofing felts; asphalt protective coatings and cements; mineral fiber board, roof shingles, sidings; canal bulkhead, corrugated and flat sheets; building and roof insulations; Stratalite® thatch-look siding; Vanguard® vinyl siding and decorative shutters.

CHEMICAL PRODUCTS

GAF® Chemicals

Dyes and Pigments
Coloring agents for all synthetic and natural fibers and blends for the carpet and textile industry; also for paper, leather, lacquers, coatings, printing inks, plastics, rubber, candles, and detergents; disperse, acid, direct, and basic dyes; fluorescent brighteners; oil-, spirit-, and water-soluble dyes and bases.

High-Pressure Acetylene Derivatives
Monomers, polymers, copolymers, solvents, organic intermediates, and specialty chemicals derived from acetylene; for use in cosmetic, petroleum, pharmaceutical, plastic, textile, adhesive, and a variety of other industries.

Industrial Organic Chemicals
Complex cyclic and aliphatic compounds for use as active ingredients and as intermediates in the dye, pharmaceutical, agricultural, and chemical processing industries.

Iron Powders
Microscopic-size spheres of iron used in VHF and UHF circuitry, transmitters, receivers, radar, and in powder metallurgy.

Latex Polymers and Compounds
SBR latices and Gafcote® coating compounds produced from a wide range of monomers and polymers for use as binders and coatings on floor coverings, upholstery, textile fabrics, paper and paper board, nonwovens, and adhesives.

Silver Salts
Silver nitrate, silver cyanide, monovalent and divalent silver oxides for photography, electroplating, battery, and other applications.

Specialty Chemicals
Processing and formulating agents including Gaftex® textile auxiliaries, Biopal® biocides, Gafstat® antistats, flame-retardants for plastics, coating and finishing agents, adhesive additives, Cheelox® sequestrants, Antara® metal lubricants, corrosion inhibitors, flocculants, and solvents for use in various industries and in recycling operations and pollution control.

Surfactants
Nonionic, anionic, cationic, and amphoteric surface-active agents for use as detergents, emulsifiers, dispersants, and wetting agents.

Thermoplastic Molding Resins
Gafite™ engineering resins for auto exterior components and mechanical and electrical parts, electrical/electronic components, appliance housings, and business machines.

Ultraviolet Absorbers
Uvinul® ultraviolet-screening agents for cosmetics, plastics, textiles, pigments, rubber, and adhesives.

GAF® Felt and Filter Products
Natural and synthetic fiber felts and filter devices for liquid and gas filtration; Gaflo® pressure vessel filter systems; also felts for seals, lubrication, polishing, pianos, apparel and interior design, papermaking, and other industrial and aerospace applications; noise- and vibration-control materials; and nonwovens.

GAF® Mineral Granules
Mineral granules for roofing and other uses, inert fillers, and slate flour.

PHOTO & REPRO PRODUCTS

GAF® Photo Products

Consumer Photo
Still cameras, silent and sound movie cameras and projectors, color slide, movie, and print films; black-and-white still and movie films; papers, chemicals, and accessories.

Graphic Arts
Gafmate® films and chemicals for offset printing, photolithography, photoengraving, rotogravure, and silk-screen printing; also stabilization papers and Gaftype™ phototypesetting paper.

Photoimaging
High resolution see-through Microline® glass plates and film, photoresists, printers, and developers for the electronics industry.

Pictorial Photo
View-Master® talking and silent stereo viewers, picture reels, and projectors; Pana-Vue® slide viewers and color slides for educational, entertainment, and commercial uses.

Professional Photo
Color and black-and-white films, color and black-and-white papers and chemicals for portrait, school, aerial, commercial, and industrial photography; photofinishing; specialized materials for seismic recording, instrumentation, surveillance, and oscillography.

X-ray
Medical and industrial x-ray films, chemicals, and accessories; radiologic teaching aids.

GAF® Business Systems Products

Audio-Visual
Overhead and slide projectors, overhead projection transparency series for preschool through college instruction, and materials and supplies.

Business Forms
Custom designed and printed data-processing forms, sales books, manifold order books, single copy forms, unitset forms, voucher and receipt books; Card-Set™ forms, and forms for autographic register and similar items.

Micrographic
Diazo microfilm; microfilm cameras and processors; full line of readers, reader-printers, and roll film and microfiche duplicators; automatic document retrieval units for use in various business and microfilm systems.

Reproduction
Diazo copying machines, accessories, and sensitized materials for engineering and business systems; Gafont® lettering machine; drafting materials and supplies; electrostatic copier papers, toners, and supplies.

SERVICES

Contract Manufacturing Service
Precision parts and equipment contract manufacturing service.

Photo Service
Nationwide processing service for black-and-white and color still and movie films.

printExpress® Service
Quick-service retail outlets for copying, offset printing, white printing, microfilming, and overhead transparency production; art and drafting supplies and equipment.

Transparency Service
Custom overhead transparency and color slide production service.

GAF®

GAF Locations

21441

Corporate Offices
140 West 51 Street
New York N Y 10020
212 582 7600

Domestic Operations

GAF Corporation's plants, research laboratories, sales offices, distribution centers, photofinishing plants, and photo equipment repair centers are located throughout the U.S.A.

Alabama
Birmingham
Huntsville
Mobile

Arizona
Phoenix
Sun City
Tempe
Tucson

California
Glendale
La Habra
Long Beach
Los Angeles
San Diego
San Jose
South San Francisco
Van Nuys

Colorado
Denver

Connecticut
Greenwich
Staffordville

District of Columbia

Florida
Hialeah
Orlando
Tampa

Georgia
Atlanta
Savannah

Illinois
Chicago
Franklin Park
Joliet
Lincolnwood
Melrose Park
Peoria

Indiana
Bloomington
Columbus
Indianapolis
Mount Vernon
Muncie
South Bend
Terre Haute
West Lafayette

Iowa
Des Moines
Mason City

Kansas
Kansas City

Kentucky
Calvert City
Louisville

Louisiana
Kenner

Maryland
Baltimore
Cheverly
Hagerstown

Massachusetts
Franklin
Millis
Newton
Somerville

Michigan
Detroit
Southfield
Troy
Warren

Minnesota
Minneapolis

Missouri
Annapolis
Joplin
Kansas City
Maryland Heights
St. Louis

New Jersey
Bound Brook
Camden
Gloucester City
Linden
South Bound Brook
Union
Wayne

New York
Albany
Binghamton
Buffalo
Delmar
Glens Falls
Ithaca
Johnson City
Newburgh
New York
Rensselaer
Schenectady
Syracuse
Vails Gate
Vernon
Vestal
Woodside

North Carolina
Charlotte

Ohio
Canton
Cincinnati
Cleveland
Columbus
Elyria
North Olmstead
Shelby
Springfield
Toledo
Youngstown

Oklahoma
Oklahoma City

Oregon
Eugene
Portland
Progress

Pennsylvania
Allentown
Blue Ridge Summit
Erie
Paoli
Philadelphia
Pittsburgh
Whitehall

Rhode Island
Westerly

South Carolina
Greenville

Tennessee
Chattanooga
Johnson City
Knoxville
Nashville

Texas
Arlington
Dallas
Houston
San Antonio
Texas City

Washington
Seattle
Spokane

Wisconsin
Appleton
Brookfield
Milwaukee
Pembine
Wauwatosa

Domestic Subsidiaries

GAF Export Corporation
New York, N.Y.
Carolina, Puerto Rico

GAF International Corporation
New York, N.Y.

International Manufacturing and Marketing Subsidiaries

GAF (Australasia) Pty. Ltd.
Alexandria, Australia

GAF (Qld.) Pty. Ltd.
Brisbane, Australia

GAF (S.A.) Pty. Ltd.
Adelaide, Australia

GAF (Vic.) Pty. Ltd.
Melbourne, Australia

GAF (W.A.) Pty. Ltd.
Perth, Australia

GAF (Belgium) N.V.
Sint-Niklaas, Belgium

GAF do Brasil Indústria e Comércio Ltda.
Sao Paulo, Brazil

GAF (Canada) Limited
Mississauga, Ontario, Canada
Toronto, Ontario, Canada
Vancouver, British Columbia, Canada

GAF (Denmark) A/S
Ballerup, Denmark

GAF (Deutschland) G.m.b.H.
Frechen, Germany

GAF (France) S.A.
Louvres, France

GAF (Great Britain) Limited
Colnbrook, England
Hounslow, England
Manchester, England

Helioprint Hellas S.A.
Athens, Greece

GAF (Ireland) Limited
Dublin, Ireland

GAF (Israel) Ltd.
Tel Aviv, Israel

GAF (Italia) S.r.l.
Milano, Italy

GAF (Japan) Limited
Tokyo, Japan

GAF Corporation de Mexico S.A. de C.V.
Mexico City, Mexico

GAF (Nederland) B.V.
Delft, Holland

GAF (New Zealand) Pty. Ltd.
Wellington, New Zealand

GAF (Norge) A/S
Oslo, Norway

GAF (Osterreich) G.m.b.H.
Vienna, Austria

GAF South Africa (Pty.) Ltd.
Johannesburg, Republic of South Africa

GAF Corp. Sucursal en Espana
Barcelona, Spain

GAF Svenska AB
Stockholm, Sweden

GAF (Switzerland) A.G.
Zug, Switzerland

Affiliates:

Chemical Developments of Canada Limited
Pointe Claire, Quebec, Canada

Sawyer's Asia Pty. Ltd.
Bombay, India

International Film Processing Laboratories:
Sint-Niklaas, Belgium
London, England

GAF authorized film-processing laboratories and equipment repair stations are located throughout the world.

END